

Message Text

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TO SECSTATE WASHDC 6647

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C O N F I D E N T I A L REYKJAVIK 1284

E.O. 11652: GDS

TAGS: PINT, IC

SUBJECT: FONMIN AGUSTSSON LATEST OBJECT OF SCANDAL ALLEGATIONS

1. BEGINNING WITH ACCUSATION OF CRIMINAL COVERUP AGAINST JUSTICE MIN OLAFUR JOHANNESSON EARLY THIS YEAR (REYKJAVIK 154, 285), PROGRESSIVE PARTY HAS BEEN ALMOST CONSTANTLY ON DEFENSIVE AGAINST CHARGES OF MALFEASANCE BY ONE OR ANOTHER OF ITS MEMBERS OR OFFICIALS. FOREIGN MINISTER AND PP VICE CHAIRMAN EINAR AGUSTSSON IS LATEST TO BE TARGETED, FOLLOWING REVELATION THAT HE OBTAINED LARGE PERSONAL BANK LOAN SIX MONTHS AGO UNDER QUESTIONABLE CIRCUMSTANCES.

2. NO WRONGDOING IN LEGAL SENSE HAS BEEN IMPUTED TO AGUSTSSON, BUT AT VERY LEAST, INCIDENT HAS BECOME MAJOR EMBARRASSMENT TO HIM. LOAN WAS IN AMOUNT OF ABOUT \$30,000, REPAYABLE IN EIGHT YEARS (BOTH FIGURES UNUSUALLY HIGH), AGAINST SEVENTH RPT. SEVENTH MORTGAGE ON AGUSTSSON'S HOUSE, AND NEGOTIATED ONLY TWO DAYS BEFORE GENERAL INCREASE IN INTEREST RATES. MOREOVER, THERE ARE INDICATIONS THAT EFFORT WAS MADE TO PREVENT TRANSACTION FROM BEING PUBLICLY RECORDED IN CUS-
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TOMARY MANNER.

3. TO COMPOUND PREDICAMENT, AGUSTSSON THEN CHOSE, FOR OBSCURE REASONS, TO MAKE FIRST PUBLIC COMMENT ON MATTER IN SEPT. 25 INTERVIEW WITH PEOPLES ALLIANCE DAILY THJODVILJINN, WHICH IS ARCH-CRITIC OF GOVERNMENT AND, OFTEN, OF AGUSTSSON PERSONALLY. IN TAPED INTERVIEW, WHICH MAKES FONMIN SOUND NAIVE AT BEST, HE RELATES LOAN TO COSTS OF NEW HOUSE HE PURCHASED ON BECOMING MINISTER IN 1971 IN BELIEF THAT MINISTERIAL DUTIES DEMANDED MORE SUMPTUOUS QUARTERS. HE CONCEDES THAT AVERAGE CITIZEN WOULD NOT HAVE RECEIVED SIMILAR TERMS BUT SAID HE FELT BANK HAD SHOWN HIM SPECIAL CONSIDERATION BECAUSE OF HIS OFFICE. AT SAME TIME AGUSTSSON DENIES USING HIS POSITION TO SEEK FAVORS. AT ANOTHER POINT IN INTERVIEW, FONMIN INSISTS HE DOES NOT USE INFLUENCE AS POLITICIAN AND EX-BANKER ON BEHALF OF OTHERS BUT ACKNOWLEDGES THAT HE SOMETIMES PHONES BANKERS IN ORDER TO BRING TO THEIR ATTENTION PROBLEMS OF HIS CONSTITUENTS. FINALLY, FONMIN RECALLS THAT HE HAS "BEEN CALLED STUPID AND INDECISIVE AND ACCUSED OF NOT BEING A GOOD MINISTER." PEOPLE CAN BELIEVE THIS, HE GOES ON, BUT THEY MUST NOT REGARD HIM AS DISHONEST.

4. CLOUD OVER AGUSTSSON MEANS THAT ALL FOUR PROGRESSIVE PARTY CABINET MINISTERS ARE NOW OR HAVE RECENTLY BEEN ACCUSED OF SOME KIND OF QUESTIONABLE ACTIVITY OR MISUSE OF OFFICE. MUCH OF THIS COULD BE CHALKED UP TO POLITICS AS USUAL, BUT AT SAME TIME, THERE ARE ALSO CONTINUING REVELATIONS ABOUT COMMON CRIME AND SWINDLE ALL, SEEMINGLY, INVOLVING PP OFFICIALS OR SUPPORTERS. RESPONSIBLE POLITICIANS, INCLUDING SOME FROM PP'S COALITION PARTNER INDEPENDENCE PARTY, ARE NOW SAYING THAT EVENTS PROVE WHAT HAS LONG BEEN SUSPECTED -- THAT PP IS PARTY OF LOOSE AND EASY MONEY WHICH IS FINALLY GETTING WHAT IT DESERVES.

5. MOST IMMEDIATE POLITICAL IMPLICATION OF ALL THIS HAS BEEN DAMPENING OF WHAT HAD BEEN WIDESPREAD SPECULATION THAT COALITION WOULD DISSOLVE AMICABLY NEXT YEAR AND CALL EARLY GENERAL ELECTION. PROGRESSIVES ARE NOW DESCRIBED AS ANXIOUS TO CLING TO OFFICE AS LONG AS POSSIBLE OR AT LEAST UNTIL THEY ABSOLVE THEMSELVES.

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6. AS FAR AS AGUSTSSON IS CONCERNED, HE IS, AS NOTED, IN EMBARRASSING SPOT, WITH FULL REVERBERATIONS FROM THJODVILJINN INTERVIEW -- WHICH ONLY HURT HIM -- STILL TO BE FELT. ON OTHER HAND, FON MIN APPARENTLY STILL ENJOYS CONFIDENCE OF HIS OWN PARTY AND, THUS FAR, SOMEWHAT UNEASY NEUTRALITY OF COALITION PARTNER IP. (MAJOR IP NEWSPAPER, MORGUNBLADID, ICELAND'S MOST COMPREHENSIVE AND RESPECTED, HAD NOT BREATHED

WORD OF LOAN MATTER.) THESE PARTIES, THEIR POWERFUL PRESS,
PLUS CONTROL OF GOVERNMENT INVESTIGATORY APPARATUS, CONSTITUTE
FORMIDABLE BULWARK FOR POLITICIANS IN DISTRESS. IT REMAINS
TO BE SEEN WHETHER THEY CONTINUE TO STAND BEHIND AGUSTSSON.
BLAKE

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